



# U.S. Department of Housing and Urban Development

Office Multifamily Housing  
Northwest/Alaska Multifamily Hub

Northwest/Alaska

October 1999

## Instructions for Appraisal Checklist

### **"223(f)\$1 Million or Less, Small Projects"**

**(Five or More Units, Maximum Loan Amount \$1,000,000)**

**This checklist is for States within jurisdiction of the Northwest/ Alaska MF Hub**

#### **I. Appraisal Format**

- A. The required complete narrative appraisal is in summary report format, conforming to USPAP having Jurisdictional Exceptions, documented on HUD-92264 form with HUD-92273 & 92274 rent comparison and operating expense forms are to be completed and included with the report. This format is for the **"223(f) \$1,000,000 Small Projects"** only. Be advised that lender will prepare the HUD-92264A. (**NOTE**, FHLMC Form 71B with Summary Appraisal (with Jurisdictional Exceptions), maybe used as an alternate at the election of the lender for 223f processing)
- B. All three approaches to value are required. The conclusion to value must be "As Repaired" on the form. (Use a cover sheet in the narrative to indicate "As Is" value, if necessary.) Remaining Economic Life and Effective Age are also based on repairs being completed.
- C. The HUD forms are the controlling documents and. the narrative appraisal report will be used to supplement the forms.
- D. FHA requires original and two copies of the appraisal report.
- E. The lender is required to provide the appraiser a copy of the Engineering Report along with the name and telephone number of the inspector.

#### **II. Property Requirements:**

Multifamily residential, 5 or more units, maximum loan \$1,000,000. Mixed use ok with limitations. (see below **"VIII. H. Income Approach, Mixed Use Properties"**)

#### **III. Appraiser Qualifications:**

Minimum qualifications: Certified General Appraiser with experience and knowledge of HUD 223(f) appraisal procedures.

#### **IV. Required Exhibits:**

- A. Photos
  - 1. Subject: 4 photos; front, rear & 2 street scenes; include anything unusual in viewfinder.
  - 2. Rent comps & sales comps: one photo of each.
  - 3. Land comps: Photos & plat maps are not required.
- B. Plat Map (subject only)
- C. Building Sketch

- D. Unit Sketch
- E. Maps for comp locations
- F. "Letter of Engagement" between lender and appraiser with copy of this Appraisal Checklist attached. (2 page chart only).

**V. Summary narrative to include the following:**

- A. Most information is specified on the HUD-92264 form. Use the narrative to elaborate when necessary. It is expected that the narrative will be a supplement, and as such, relatively short. Include the following:
  - 1. Place any additional neighborhood data in the narrative addendum to point out possible problems (mixed use, transitional from multifamily to industrial, etc.).
  - 2. Summarize Highest and Best Use "As Vacant" and "As Improved". If different, explain.
  - 3. Three year sale history of subject.

**VI. Physical Inspection:**

Inspect one of each unit type and the "best and worst" units. Use discretion: If 20 studio units, inspect more than 1 unit!

**VII. For Sales Comparison approach:**

Summary discussion of GIM, Cap rates, and units of comparison used in analysis. Indicate how each sale relates to the subject.

**VIII. For Income approach:**

- A. The appraiser determines the unit sizes. Explain the method used. Attach perimeter sketch and unit sketch.
- B. Discuss income for subject. Discuss vacancies in subject, comparables and neighborhood (all three). (note, a 7% vacancy is required for the appraisal which is a HUD underwriting standard)
- C. Brief discussion of project's historical and current operating statement, if available. If operating statements not available, consult service providers, tax assessor or expense comparables for best estimates. Appraiser's discretion as to which to use.
- D. Note differences between market and actual project rental income and expenses (trended rents are not allowed in the HUD processing).
- E. Illegal units: Upon physical inspection, if it appears there are illegal units, then verify. Do not count income or expenses from illegal units.
- F. **Replacement Reserve** is \$150 or more Per Unit Per Annum (Pupa). Note: **RR** is not a percent of replacement cost as in the regular 223(f) program.
- G. Use Gross Income Multiplier and/or Overall Capitalization Rate. Discounted Cash Flow not to be used.
- H. **Mixed Use Projects** require special attention. It should be understood by all parties that a mixed use project will require a more detailed appraisal and a higher fee.
  - 1. Commercial Income for 223(f) processing is limited to 10% of total building area and 15% of the income. If an assignment on a mixed use property is received, contact HUD for instructions.
  - 2. Provide ratio of commercial area to total building area.
  - 3. Minimum of three Lease comparables with data sheets and photos.
  - 4. Brief narrative of all market derived indicators. Discuss vacancy rate, trend of commercial, type and length of lease, expenses related to commercial.
  - 5. Does commercial in the subject enhance, detract from, or have no effect on residential use?
  - 6. Note for comparable selection: Best choice is similar mixed use projects with similar ratio of commercial to residential. If those not available, ok to use straight apartments for residential, and best available commercial comparables. Adjust the rents and cap rate accordingly with explanation in the narrative.
  - 7. HUD requires a 20% vacancy factor for commercial property in a multifamily complex.

8. The commercial income analysis will be in the narrative report.

**IX. For Cost approach:**

- A. The Cost Approach is required.
- B. Support land value with appropriate number of comparables. Use depreciated replacement cost.
- C. **Remaining Economic Life and Effective Age:** Remaining Economic Life and Effective Age are to be determined assuming the property is in "as repaired" condition. Give some thought to these items. They have a major impact on the processing. The amortization period of the loan is limited, by regulation, to 75% of remaining economic life. For example, a 40 year remaining economic life has a maximum loan term of 30 years.

The initial deposit to Replacement Reserve is based on the **effective age** of the project after repairs are complete. The higher the effective age, the higher the initial deposit.

**X. Checklist:**

See attached summary of these guidelines in chart/checklist format. This chart/checklist is to be attached to the appraiser's "letter of engagement" with the lender.



Northwest/Alaska

# U.S. Department of Housing and Urban Development

Office Multifamily Housing  
Northwest/Alaska Multifamily Hub

October 1999

***This checklist is to be attached to the "Letter of Engagement" between the Lender and Appraiser.***

	V	<b>Appraisal Checklist</b> <b>"223(f) \$1,000,000 Small Projects"</b> <b>HUD FORM 92264</b>
<b>Form Appraisal HUD-92264 or FHLMC Form 71b</b>		<ul style="list-style-type: none"> <li>• USPAP Compliant (with Jurisdictional Exceptions)</li> <li>• Complete narrative appraisal report in summary format</li> <li>• Documented 92264, 92273, 92274 or Form 71b</li> <li>• Report "As Repaired" value</li> <li>• One original and two copies of appraisal report provided to HUD</li> <li>• Lender required to provide Engineering Report to Appraiser</li> </ul>
<b>Property Requirements</b>		<ul style="list-style-type: none"> <li>• 5 or more units, loan \$1,000,000</li> <li>• Mixed use ok (see below limitations under Mixed Use Projects)</li> </ul>
<b>Appraiser Qualifications</b>		<ul style="list-style-type: none"> <li>• Certified General Appraiser, experienced/knowledgeable of FHA appraisal processing</li> </ul>
<b>Required Exhibits</b>		<ul style="list-style-type: none"> <li>• Photos : <ul style="list-style-type: none"> <li>• Subject: 4 photos; front, rear, 2 street</li> <li>• Rent &amp; Sales Comps: 1 photo each</li> <li>• Land Comps: photos &amp; plat maps <u>not</u> required</li> </ul> </li> <li>• Plat Map (subject only)</li> <li>• Building sketch</li> <li>• Unit Sketch</li> <li>• Maps for Comp Locations</li> <li>• "Letter of Engagement" with <i>this checklist</i> attached</li> </ul>
<b>Summary Narrative</b>		<ul style="list-style-type: none"> <li>• Neighborhood Description: use narrative if mixed use, transitional or possible problems</li> <li>• Highest and Best Use "As Vacant" &amp; "As Improved"</li> <li>• Three year sale history on subject</li> </ul>

		<ul style="list-style-type: none"> <li>• Discussion of all market derived data &amp; adjustments on form.</li> </ul>
<b>Physical Inspection</b>		<ul style="list-style-type: none"> <li>• Inspect 1 of each unit type (more if all alike)</li> <li>• Inspect "Best and Worst" units</li> <li>• If appears some units "illegal", verify</li> </ul>
<b>Sales Comparison Approach</b>		<ul style="list-style-type: none"> <li>• Discuss: <ul style="list-style-type: none"> <li>• GIM, Cap rates</li> <li>• Units of comparison</li> <li>• Relate each sale to subject</li> </ul> </li> </ul>
<b>Income Approach</b>		<ul style="list-style-type: none"> <li>• Appraiser determines unit sizes. Explain method.</li> <li>• Perimeter sketch &amp; unit sketches required</li> <li>• Discuss: <ul style="list-style-type: none"> <li>• income for subject,</li> <li>• vacancies: subject, comps, &amp; neighborhood,</li> <li>• operating statement if available</li> </ul> </li> <li>• If operating statements not available, best estimate from service providers, assessor, or expense comparables at appraiser's discretion difference between market and actual</li> <li>• Replacement Reserve = \$150 Pupa, minimum</li> <li>• Use 7% vacancy rate</li> <li>• "Illegal" units: don't count income or expense</li> <li>• GIM/Overall Cap Rate, no discounted cash flow</li> </ul>
<b>Mixed Use Projects</b>		<ul style="list-style-type: none"> <li>• Commercial Income limited to 10% of total building area and 15% of that income</li> <li>• 20% vacancy factor used for commercial income</li> <li>• Determine commercial area. Ratio limited:</li> <li>• Minimum 3 lease comparables: data sheets, photos</li> <li>• Discuss: <ul style="list-style-type: none"> <li>• commercial vacancy rate, (use market rate)</li> <li>• trend for commercial,</li> <li>• type lease (triple net?),</li> <li>• length of lease(s),</li> <li>• commercial expenses,</li> <li>• Does commercial detract from residential?</li> </ul> </li> </ul> <p>Best available comps. Adjust cap rate, rents if mixed use comps not available.</p>
<b>Cost Approach</b>		<ul style="list-style-type: none"> <li>• Appropriate number of land sales</li> <li>• Use depreciated replacement cost</li> <li>• Remaining Economic Life very important: <ul style="list-style-type: none"> <li>• After repairs complete</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>• Loan amortization limited to 75%. eg. 40 yr remain economic life x 75% = 30 yr term</li> <li>• Effective Age very important: <ul style="list-style-type: none"> <li>• After repairs complete.</li> <li>• Effects Initial deposit to RR.</li> </ul> </li> </ul>
--	--	---

Seattle Federal Office Building · 909 First Avenue · Suite 190 · Seattle, WA 98104-1000  
Oregon Program Center · 400 Southwest Sixth Avenue · Portland, OR 97204-1632

[www.hud.gov/local/sea/mfh/seamfhpg.html](http://www.hud.gov/local/sea/mfh/seamfhpg.html)



# U.S. Department of Housing and Urban Development

Office Multifamily Housing  
Northwest/Alaska Multifamily Hub

Northwest/Alaska

October 1999

## 223(f) Small Projects Worksheet (92264)

Project Name/Address: \_\_\_\_\_

\_\_\_\_\_

Lender: \_\_\_\_\_

(excerpt from Form HUD-92264)

### F. INCOME COMPUTATIONS:

30. Total Annual Rent

(From HUD-92264, page 1, section C-32) \$ \_\_\_\_\_

31. Occupancy Percentage

**(No greater than 93%)** \_\_\_\_\_%

32. Effective Gross Income

(line 30 x line 31) \$ \_\_\_\_\_

33. Total Expenses

(From HUD-92264, page 2, E-29) \$ \_\_\_\_\_

34. Net Income to Project

(Line 32 - line 33) \$ \_\_\_\_\_

35. Expense Ratio

(Line 33 / Line 32) \_\_\_\_\_%

Expenses Per Unit Per Annum (PUPA) \$ \_\_\_\_\_

### **REMARKS:**

A. Appraiser's statement of actual vacancies on date of inspection:

Number of units: \_\_\_\_\_ Per Cent \_\_\_\_\_%

B. Estimated cost of repairs from inspection report: \$ \_\_\_\_\_

C. Reasonable and customary estimates for: Legal costs \$ \_\_\_\_\_ Title & Recording \$ \_\_\_\_\_

D. Initial Deposit to Replacement Reserve, determined by lender with **written justification**:

Number units x Amount = Initial Deposit... \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_

E. Market value (From HUD-92264 page 4, K-9, appraiser's signature).... \$ \_\_\_\_\_

F. Lender completes HUD-92264A

Lender's Underwriter: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**COMMENTS:**

Seattle Federal Office Building · 909 First Avenue · Suite 190 · Seattle, WA 98104-1000  
Oregon Program Center · 400 Southwest Sixth Avenue · Portland, OR 97204-1632

[www.hud.gov/local/sea/mfh/seamfhpg.html](http://www.hud.gov/local/sea/mfh/seamfhpg.html)





# U.S. Department of Housing and Urban Development

Office Multifamily Housing  
Northwest/Alaska Multifamily Hub

Northwest/Alaska

October 1999

## 223(f) Small Projects Worksheet (71b)

Project Address: \_\_\_\_\_

\_\_\_\_\_

Lender: \_\_\_\_\_

(excerpt from Form HUD-92264)

### F. INCOME COMPUTATIONS:

30. Total Gross Annual Forecasted Income

(From FHLMC Form 71b, page 3) \$ \_\_\_\_\_

31. Occupancy Percentage

**(No greater than 93%)** \_\_\_\_\_%

32. Effective Gross Income

(line 30 x line 31) \$ \_\_\_\_\_

33. Total Expenses & Replacement Reserves

(From FHLMC Form 71b, page 3) \$ \_\_\_\_\_

34. Net Income to Project

(Line 32 - line 33) \$ \_\_\_\_\_

35. Expense Ratio

(Line 33 / Line 32). \_\_\_\_\_%

Expenses Per Unit Per Annum (PUPA) \$ \_\_\_\_\_

### REMARKS:

1. Appraiser's statement of actual vacancies on date of inspection:  
Number of units: \_\_\_\_\_ Per Cent \_\_\_\_\_%
2. Estimated cost of repairs from inspection report: \$ \_\_\_\_\_
3. Reasonable and customary estimates for: Legal costs \$ \_\_\_\_\_ Title & Recording \$ \_\_\_\_\_
4. Initial Deposit to Replacement Reserve, determined by lender with **written justification**:  
Number units x Amount = Initial Deposit... \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_
5. Market value (From HUD-92264 page 4, K-9, appraiser's signature).... \$ \_\_\_\_\_
6. Lender completes HUD-92264A

Lender's Underwriter: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**COMMENTS:**